

02/10/1997

PM calls for multi-currency standard (HL)

Kamarul Yunus in Santiago

SANTIAGO, Wed: For free and fair trade, the world needs a less volatile standard for comparing the value of different currencies, Prime Minister Datuk Seri Dr Mahathir Mohamad says.

"Today we use the US dollar - an unstable currency. We need to devise a standard which is less volatile. A common basket of currencies can be used for this - each currency being valued according to the economic indices.

"There will be fluctuations of the currencies in the basket but they are likely to cancel each other out. The basket, if wisely chosen will enable us to make a comparison of the relative value with a stable standard," he told the 12th International General Meeting of the Pacific Economic Cooperation Council (PECC) last night.

Dr Mahathir said Malaysia believes in free trade but cannot accept or support the abuse of the system caused by the trading of currencies as a commodity.

"We need trade to be free, but let us be honest. There can be no absolute freedom for anything. If a society is to exist as a society, if a society is to be peaceful, stable and prosperous, there cannot be absolute freedom, for the simple reason that the freedom of one limits or denies the freedom of another.

"Freedom must therefore be subjected to rules, regulations and laws in order to be equitably shared," he said.

Dr Mahathir said even now there are many laws and regulations to ensure that free trade works.

"Without laws and regulation all that we get will be anarchic markets in which the strong, the ruthless, the irresponsible will exploit and abuse the system.

"For the passive, there will be effectively no free trade. For them the market will be regulated - by rogue speculators," he said.

Dr Mahathir said he was aware that the PECC participants would find it difficult to accept his arguments, but international cooperation is needed to make the world of business "safe and free from manipulators and highway robbers".

"I am aware that the PECC and many other Pacific organisations have members from the developed North as well as the developing South. The idea of cooperation is great. Cooperation implies mutual help and mutual benefits - a win-win mindset."

But the currency market turbulence and the impoverishment of the countries of the Pacific Rim will not help trade or investment.

Malaysia, for example, transformed itself from a two-product economy (rubber and tin) to a so-called "Asian Tiger" but now it has fallen victim to currency and share manipulation, Dr Mahathir said.

Malaysia prospered by opening itself early to direct foreign investment. "We are foreigner-friendly" and the country owes its industrialisation and rapid growth largely to foreign investments, he said.

As a result of its industrialisation policies, the Prime Minister said, Malaysia's per capita income increased from about US\$1,600 in 1970 to US\$5,000 this year and the reserves are sufficient to finance four to five months of retained imports. In addition, the savings rate is 38 per cent.

Malaysia also has the best infrastructure in the region, companies are profitable, government revenue is increasing despite lower taxation and the budget has showed a surplus in the last four years. The Government

pre-paid its foreign debts, financing arrangements for development projects involve very little borrowings from abroad, and the current account deficit is declining.

On the back of these positive developments, Dr Mahathir said World Bank president Michel Camdessus in June described Malaysia as "a good example of a country where the authorities are well aware of the challenges of managing the pressures that result from high growth and of maintaining a sound financial system amid sustainable capital flows and a booming property market".

"Obviously Camdessus had a lot of confidence in Malaysia, in its fundamentals, in its economy and in the management of the economy.

"Yet today we are told that the fund managers have lost confidence in Malaysia because of weak fundamentals. The Malaysian ringgit, which hovered between 2.49 and 2.51 to the US dollar for years began to slide."

It is apparent, Dr Mahathir said, some people had been eyeing Malaysia and decided that it was "ripe for the picking", as is the case with the other dynamic economies of South-East Asia.

"No government can sit by and watch the wealth of the country being siphoned off, thus a stop was put on (equities) short-selling. Angered by their inability to fiddle with the stock market, the manipulators dumped shares and the ringgit," he added.

Consequently, Malaysia has lost 23 per cent of its wealth in terms of the exchange rate - including the earnings of the very poor - and the stock market has fallen by 60 per cent in ringgit and 70 per cent in US dollar terms.

"The per capita income of Malaysians dipped from US\$5,000 to US\$3,600 in two months, when it took 12 years to achieve.

"Where has this money gone to? It did not disappear into thin air. The speculators, short-sellers and manipulators have it.

"These are rich people from rich countries. They have no compunction about impoverishing the poor in order to enrich themselves.

"Their excuse? The South-East Asian economies were not open enough. Yet they seem sufficiently open for these manipulators to profiteer," he added.

(END)